Formula Descriptions

FORMULA "A"

FOR A DEPENDENT STUDENT

(See Worksheets on pages 27-33 and Tables on pages 35-38.)

The Expected Family Contribution (EFC) for a dependent student is calculated using the information for the student and the student's parents provided on the FAFSA. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers.

PARENTS' INCOME IN 1997 (lines 1-7)

Using information from the student's FAFSA, the parents' total income is calculated. The parents' total income is the sum of the parents' taxable and untaxed income, minus allowable exclusions. If the parents are tax filers, the parents' adjusted gross income (AGI) as reported on the FAFSA is the amount of the parents' taxable income used in the calculation. If the parents are not tax filers, the calculation uses the parents' reported income earned from work. Untaxed income is included in the formula because it may have a considerable effect on the family's financial strength and, in some cases, may be the family's main source of income. Note that "earned income credit" is included as part of total untaxed income and benefits only if the parents are tax filers.

The parents' taxable and untaxed income reported on the FAFSA is their "base year" income, defined as the income received during the calendar year preceding the academic year for which aid is requested. Thus, for the 1998-99 award year, an amount equal to the parents' calendar year 1997 income is used in the parents' portion of the EFC calculation. In most cases, base year income is more reliable because it can be verified easily by comparing it with the U.S. income tax return or payroll receipts. However, if the family has been adversely affected by a special circumstance, the financial aid administrator may use his or her professional judgment to substitute expected 1998 income for both parents in the formula, or otherwise adjust income or other data in the formula (see page 5). Total income may be a negative number.



Stop here if line 3 (parents' taxable income) is \$12,000 or less, and the parents did not and will not file an IRS Form 1040 (or are not required to file an income tax return). If both of these conditions are met, the student's EFC is zero. See the discussion of the "zero EFC" on page 4.

ALLOWANCES AGAINST PARENTS' INCOME (lines 8-14)

Certain allowances are deducted from parents' total income to reserve a portion of income for expenses that are required (taxes), necessary (basic living expenses), and related to acquiring income (employment allowance). The allowances provide a minimum level of support for the necessary expenses that affect a family's financial strength. Total allowances are calculated by adding the following:

- **U.S. Income tax paid.** Use the amount reported on the FAFSA. Non-tax filers do not receive this allowance. If this is a negative amount, it is set to zero.
- ❖ State and other tax allowance. Use Table A1, page 35. This allowance is a percentage of parents' total income and approximates the average amount paid in state and other taxes. The percentage varies according to the state and according to whether the parents' total income is below \$15,000 or is \$15,000 or more. The state to be used is the parents' state of legal residence reported on the FAFSA. If this item is blank or invalid, the student's reported state of legal residence is used. If both are blank or invalid, the state in the student's mailing address is used. If all three are blank or invalid, the rate shown in Table A1 for a blank or invalid state is used (4 percent for total income below \$15,000; 3 percent for total income of \$15,000 or more). If this is a negative amount, it is set to zero.
- ❖ Father's and Mother's Social Security tax allowance. Use Table A2, page 36. The father's and mother's Social Security taxes are calculated separately by applying the tax rates shown in Table A2 to the father's income earned from work and the mother's income earned from work in 1997 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- ❖ Income protection allowance. Use Table A3, page 36. This allowance is a provision for the basic living expenses of a family, which must be considered before any parental contribution for postsecondary education can be determined. The allowance varies according to the number in the parents' household and the number in college in 1998-99, as reported on the FAFSA.
- ❖ Employment expense allowance. Families that do not have a nonemployed parent in the home (that is, families with two working parents or one-parent families) have expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. For two working parents, the allowance is 35 percent of the lesser of the father's income earned from work (FAFSA/SAR #67) or the mother's income earned from work (FAFSA/SAR #68), but may not exceed \$2,800. For one-parent families, the allowance is 35 percent of the parent's income earned from work, or \$2,800, whichever is less. If a student's parents are married and only one parent reports an income earned from work, the allowance is zero. The employment expense allowance is never less than zero.

AVAILABLE INCOME (line 15)

Available income is calculated by subtracting total allowances from total income. This step assumes priorities for nondiscretionary expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income may be a negative number.

PARENTS' CONTRIBUTION FROM ASSETS (lines 16-26)

(not included in the simplified formula)

In the full-data formula, the assets of parents of a dependent student must be considered in the determination of the family's total financial strength in order to fully measure a family's ability to contribute toward postsecondary educational costs. The formula evaluates the family's asset situation and determines a "contribution from assets," an amount that is combined with available income to give an accurate picture of the family's financial strength.

First, the parents' **net worth** is calculated by adding assets reported on the FAFSA (negative amounts are converted to zero for this calculation). Note that the net worth of a business/farm is adjusted to protect a portion of the net worth of these assets (use Table A4, page 36).

Second, the parents' **discretionary net worth** is calculated by subtracting the education savings and asset protection allowance (Table A5, page 37) from the parents' net worth. As is the case with income, this is done to protect a portion of assets (net worth). Families use their assets for a variety of reasons such as paying for a postsecondary education, retirement, or emergencies. The allowances for ages 40 through 65 approximate the present cost of an annuity which, when combined with Social Security benefits, would provide at age 65 a moderate level of living for a retired couple or single person. As shown in Table A5, the allowance increases with the age of the older parent (as reported on the FAFSA) to indicate the cost of purchasing such an annuity at a given age. Discretionary net worth may be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 12 percent to obtain the **parents' contribution from assets**, which represents the portion of the value of parents' assets that may be considered to be available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it is set to zero.

PARENTS' CONTRIBUTION (lines 27-30)

These are the final steps in determining the parents' contribution. The parents' available income (line 15) and contribution from assets (line 26) are added to obtain the parents' adjusted available income (AAI). The AAI may be a negative number. The total parents' contribution from AAI is calculated from the amounts and rates in Table A6 (page 37) and is the total amount parents are expected to contribute toward their family's postsecondary educational costs. The rates in Table A6 increase from 22 to 47 percent as the adjusted available income increases. The rate is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases, while the portion available for discretionary purposes increases. Therefore, a progressively larger amount of income may be contributed toward postsecondary educational costs with less effect on the maintenance of the family.

The **parents' contribution** is calculated by dividing the total parents contribution from AAI (line 28) by the number in college in 1998-99, as reported on the FAFSA. The standard parents' contribution is for a 9-month enrollment period. If the student will be enrolled for less or more than 9 months, the parents' contribution is adjusted accordingly; there is no adjustment to the dependent student's own contribution. For an enrollment of less than 9 months, the parents' contribution is simply reduced proportionally—1/9 for each month of enrollment less than 9 months; for an enrollment of more than 9 months, the parents' contribution is calculated by adjusting the standard 9-month formula in several steps, beginning with the parents' AAI (see page 3 of Worksheet A).

STUDENT INCOME (lines 31-37)

As with the parents' income information, the student's total income is calculated using information from the student's FAFSA. The student's total income is the sum of the student's taxable and untaxed income, minus allowable exclusions. If the student is a tax filer, the student's adjusted gross income (AGI) as reported on the FAFSA is the amount of taxable income used in the calculation. If the student is not a tax filer, the calculation uses the student's reported income earned from work. As with the parents' income, the student's taxable and untaxed income reported on the FAFSA is his or her "base year" income, defined as the income received during the calendar year preceding the academic year for which aid is requested. For the 1998-99 award year, an amount equal to the student's calendar-year 1997 income is used in the student portion of the EFC calculation. Total income may be a negative number.

ALLOWANCES AGAINST STUDENT INCOME (lines 38-42)

The allowances listed below are deducted from total income:

- ❖ U.S. income tax paid. Use the amount reported on the FAFSA. Non-tax filers do not receive this allowance. If this is a negative amount, it is set to zero.
- ❖ State and other tax allowance. Use Table A7, page 38. This allowance is a percentage of total income of the student and varies according to the state. The state to be used in calculating the state and other tax allowance is the student's state of legal residence reported on the FAFSA. If that item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the parents' state of legal residence is used. If all three items are blank or invalid, the rate for a blank or invalid state in Table A7 is used (2 percent). If this is a negative amount, it is set to zero.
- ❖ Social Security tax allowance. Use Table A2, page 36. The student's Social Security tax allowance is calculated by applying the tax rates shown in Table A2 to the student's income earned from work in 1997 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- **❖ Income protection allowance.** The income protection allowance for a dependent student is \$2,200.

STUDENT'S CONTRIBUTION FROM INCOME (lines 43-45)

First, the student's **available income (AI)** is calculated by subtracting total allowances (line 42) from the student's total income (line 37). The AI is then assessed at a rate of 50 percent to obtain the student contribution from available income. If the student contribution from available income is less than zero, it is set to zero.

STUDENT'S CONTRIBUTION FROM ASSETS (lines 46-52)

(not included in the simplified formula)

The student's assets are treated in the same manner in the full-data formula as the parents' assets with three exceptions—there is no adjustment to the net worth of the business/farm, there is no education savings and asset protection allowance, and net worth is assessed at the rate of 35 percent.

First, the student's **net worth** is calculated by adding assets reported on the FAFSA (negative amounts are converted to zero for this calculation). Then, the student's net worth is multiplied by the conversion rate of 35 percent to obtain the **student's contribution from assets**, which represents the portion of the value of student's assets that may be considered to be available to help pay for the student's postsecondary education.

EXPECTED FAMILY CONTRIBUTION (line 53)

The final step in the EFC formula for the dependent student is to add the parents' contribution (from line 30), the student contribution from available income (from line 45), and the student contribution from assets (from line 52). The result is the EFC for the 1998-99 award period.

FORMULA "B"

FOR AN INDEPENDENT STUDENT WITHOUT DEPENDENT(S) OTHER THAN A SPOUSE

(See Worksheets on pages 39-42 and Tables on pages 43-45.)

The Expected Family Contribution (EFC) for a single or married independent student with no dependent(s) other than a spouse is the amount of funds considered available to pay the student's direct and indirect postsecondary educational costs for the academic year. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers.

STUDENT/SPOUSE INCOME in 1997 (lines 1-7)

Using information from the student's FAFSA, the student's total income is calculated. The student's total income is the sum of the student's and his or her spouse's (if the student is married) taxable and untaxed income, minus allowable exclusions. If the student and spouse are tax filers, adjusted gross income (AGI) as reported on the FAFSA is the amount of student/spouse taxable income used in the calculation. If the student and spouse are not tax filers, the calculation uses reported income earned from work. Untaxed income is included in the formula because it may have a considerable effect on the family's financial strength and, in some cases, may be the family's main source of income. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student/ spouse are tax filers.

The taxable and untaxed income reported on the FAFSA is "base year" income, defined as the income of the student and his or her spouse (if the student is married) during the calendar year preceding the academic year for which aid is requested. For the 1998-99 award year, an amount equal to the student/spouse calendar-year 1997 income is used in the EFC calculation. In most cases, base year income is more reliable because it can be verified easily by comparing it with the U.S. income tax return or payroll receipts. However, if the student or spouse has been adversely affected by a special circumstance, the financial aid administrator may use his or her professional judgment to substitute expected 1998 income for the student and spouse in the formula or may otherwise adjust income or other data in the formula (see page 5). Total income may be a negative number.

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME (lines 8-14)

Certain allowances are deducted from the student/spouse total income to reserve a portion of income for expenses that are required (taxes), necessary (basic living expenses), and related to acquiring income (employment allowance). The allowances provide a minimum level of support for the necessary expenses that affect a student's financial strength. Total allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-tax filers do not receive this allowance. If this is a negative amount, it is set to zero.
- ❖ State and other tax allowance. Use Table B1, page 43. This allowance is a percentage of the total income of the student/spouse and varies according to the state. The state to be used in Table B1 is the student's state of legal residence reported on the FAFSA. If this item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (2 percent). If this is a negative amount, it is set to zero.
- ❖ Social Security tax allowance. Use Table B2, page 44. The student's and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table B2 to student's income earned from work and the spouse's income earned from work in 1997 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- ❖ Income protection allowance. The law provides for an income protection allowance of \$4,250 for an unmarried student, \$4,250 for a married student if both the student and spouse are enrolled at least half time,* and \$7,250 for a married student, if the student is enrolled at least half time* but the student's spouse is not.
- ❖ Employment expense allowance. There are expenses that occur as a result of employment, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. If the student is not married, the employment expense allowance is zero. If the student is married but only one person is working (the student or the student's spouse), the allowance is zero. If the student is married and both the student and the student's spouse are working, the allowance is 35 percent of the lesser of the student's income earned from work (FAFSA/SAR #55) or the spouse's income earned from work (FAFSA/SAR #56), but may not exceed \$2,800.

CONTRIBUTION FROM AVAILABLE INCOME (lines 15-17)

The student's contribution from available income is calculated by subtracting total allowances from total income. This step assumes priorities for nondiscretionary expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for

^{* &}quot;Enrolled at least half time" means enrolled or accepted for enrollment on at least a half-time basis in an eligible program leading to a degree, certificate, or other recognized educational credential at an eligible institution of higher education. Only students enrolling for at least 6 credit hours per term should be included; if the school uses clock hours, only students attending at least 12 clock hours per week should be included.

discretionary purposes, including paying for a postsecondary education. (The available income may be a negative number.) The available income is then assessed at a rate of 50 percent to obtain the student/spouse contribution from available income.

STUDENT/SPOUSE CONTRIBUTION FROM ASSETS (lines 18-28)

(not included in the simplified formula)

In the full-data formula, the assets of an independent student with no dependents other than a spouse are treated in the same manner as the assets of the parents of a dependent student with the exception of the asset conversions rate, which is 12 percent for the parents of a dependent student and 35 percent for the independent student with no dependents other than a spouse.

First, the **net worth** of a student's and spouse's assets is calculated by adding assets reported on the FAFSA (negative amounts are converted to zero for this calculation). Note that the net worth of a business/farm is adjusted to protect a portion of the net worth of these assets (use Table B3, page 44).

Second, the student/spouse **discretionary net worth** is calculated by subtracting the asset protection allowance (Table B4, page 45) from the net worth. The allowance increases with the age of the student as of December 31, 1998, which may be determined from the student's date of birth (as reported on the FAFSA). The rationale for the allowance is to protect a portion of assets that may be needed for a purpose other than to pay for a postsecondary education, such as emergencies or retirement.

Finally, the discretionary net worth is multiplied by the conversion rate of 35 percent to obtain the **student/spouse contribution from assets**, which represents the portion of the value of the student/spouse assets that may be considered to be available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it is set to zero.

EXPECTED FAMILY CONTRIBUTION (lines 29-31)

This is the final step in determining the EFC for the independent student without dependents other than a spouse. The contribution from available income (line 17) and the contribution from assets (line 28) are added together. The resulting **contribution from available income and assets** (line 29) is divided by the number in college in 1998-99, as reported on the FAFSA. The result is the EFC for the 1998-99 award period.

The standard EFC is for a 9-month enrollment period. If the student will be enrolled for less or more than 9 months, the EFC is adjusted accordingly (see page 2 of Worksheet B).

FORMULA "C"

FOR AN INDEPENDENT STUDENT WITH DEPENDENT(S) OTHER THAN A SPOUSE

(See Worksheets on pages 47-50 and Tables on pages 51-53.)

The Expected Family Contribution (EFC) for an independent student with dependent(s) other than a spouse is almost the same as the formula for the *parents* of a dependent student. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers.

STUDENT/SPOUSE INCOME in 1997 (lines 1-7)

Using information from the student's FAFSA, the student's total income is calculated. The student's total income is the sum of the student's and his or her spouse's (if the student is married) taxable and untaxed income, minus allowable exclusions. If the student and spouse are tax filers, adjusted gross income as reported on the FAFSA is the amount of taxable income used in the calculation. If the student and spouse are not tax filers, the calculation uses reported income earned from work. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student/spouse are tax filers.

The taxable and untaxed income reported on the FAFSA is "base year" income, defined as the income of the student and his or her spouse (if the student is married) during the calendar year preceding the academic year for which aid is requested. For the 1998-99 award year, an amount equal to the student/ spouse calendar year 1997 income is used in the EFC calculation. In most cases, base year income is more reliable because it can be verified easily by comparing it with the U.S. income tax return or payroll receipts. However, if the student or spouse has been adversely affected by a special circumstance, the financial aid administrator may use his or her professional judgment to substitute expected 1998 income for the student and spouse in the formula, or may otherwise adjust income or other data in the formula (see page 5). Total income may be a negative number.



Stop here if line 3 (student/spouse taxable income) is \$12,000 or less, and the student (and spouse, if any) did not and will not file an IRS Form 1040 (or are not required to file an income tax return). If both of these conditions are met, the student's EFC is zero. See the discussion of the "zero EFC" on page 4.

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME (lines 8-14)

Certain allowances are deducted from the student/spouse total income to reserve a portion of income for expenses that are required (taxes), necessary (basic living expenses), and related to acquiring income (employment allowance). The allowances provide a minimum level of support for the necessary expenses that affect a student's financial strength. Total allowances are calculated by adding the following:

- ❖ U.S. income tax paid. Use the amount reported on the FAFSA. Non-tax filers do not receive this allowance. If this is a negative amount, it is set to zero.
- ❖ State and other tax allowance. Use Table C1, page 51. This allowance is a percentage of the total income of the student/spouse and approximates the average amount paid in state and other taxes. The percentage varies according to the state and whether the student/spouse total income is below \$15,000 or is \$15,000 or more. The state to be used in Table C1 is the student's state of legal residence reported on the FAFSA. If this item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (4 percent for total income below \$15,000; 3 percent for total income of \$15,000 or more). If this is a negative amount, it is set to zero.
- ❖ Social Security tax allowance. Use Table C2, page 52. The student's and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table C2 to the student's income earned from work and the spouse's income earned from work in 1997 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- ❖ Income protection allowance. Use Table C3, page 52. This allowance is a provision for the basic living expenses of a family, which must be considered before any student/spouse contribution from income can be determined. The allowance varies according to the number in the student's household and the number in college in 1998-99, as reported on the FAFSA.
- ❖ Employment expense allowance. There are expenses that occur as a result of employment, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. When both the student and spouse work, the allowance is 35 percent of the lesser of the student's income earned from work (FAFSA/SAR #55) or the spouse's income earned from work (FAFSA/SAR #56), but may not exceed \$2,800. If the student is a single parent, the allowance is 35 percent of the student's income earned from work in 1997, or \$2,800, whichever is less. If a student is married and only the student *or* the spouse reports an income earned from work, the allowance is zero. The employment expense allowance is never less than zero.

AVAILABLE INCOME (line 15)

Available income is calculated by subtracting total allowances from total income. This step assumes priorities for nondiscretionary expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income may be a negative number.

STUDENT/SPOUSE CONTRIBUTION FROM ASSETS (lines 16-26)

(not included in the simplified formula)

In the full-data formula, the assets of an independent student with dependents other than a spouse are treated in the same manner as the assets of the parents of a dependent student. The assets must be considered in the determination of the family's total financial strength to fully measure a family's ability to contribute toward postsecondary educational costs. The formula evaluates the family's asset situation and determines a "contribution from assets," an amount that is combined with available income to give an accurate picture of the family's financial strengths.

First, the **net worth** of a student's and spouse's assets is calculated by adding assets reported on the FAFSA (negative amounts are converted to zero for this calculation). Note that the net worth of a business/farm is adjusted to protect a portion of these assets (use Table C4, page 52).

Second, the student/spouse **discretionary net worth** is calculated by subtracting the asset protection allowance (Table C5, page 53) from the net worth. The allowance increases with the age of the student as of December 31, 1998, which may be determined from the student's date of birth (as reported on the FAFSA). The rationale for the allowance is to protect a portion of assets that may be needed for a purpose other than to pay for a postsecondary education, such as emergencies or retirement.

Finally, the discretionary net worth is multiplied by the conversion rate of 12 percent to obtain the **student/spouse contribution from assets**, which represents the portion of the value of the student/spouse assets that may be considered to be available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it is set to zero.

EXPECTED FAMILY CONTRIBUTION (lines 27-30)

This is the final step in determining the EFC for the independent student without dependents other than a spouse. The contribution from available income (line 15) and the contribution from assets (line 26) are added together to obtain the **adjusted available income (AAI)**. The AAI may be a negative number. The AAI is used in Table C6, page 53 to obtain the **total contribution from AAI**. This is the total amount the student and spouse are expected to contribute toward the student's postsecondary educational costs. The rates in Table C6 increase from 22 to 47 percent as the adjusted available income increases. The rate is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases, while the portion available for discretionary purposes increases. The larger the income, the easier it is for a family to contribute toward postsecondary educational costs with less effect on the maintenance of the family.

The EFC is calculated by dividing the total student's contribution from AAI (line 28) by the number in college in 1998-99, as reported on the FAFSA. The result is the EFC for the 1998-99 award period. The standard EFC is for a 9-month enrollment period. If the student will be enrolled for less or more than 9 months, the EFC is adjusted accordingly (see page 2 of Worksheet C).